Governor's Education Spending Commission

Highlights of Initial Report

Management and Accountability Reforms for K-12

- Give state superintendent greater power to supervise failing school systems
- Appoint a chief financial officer in the Dept of Ed to oversee financial accountability of school systems and strengthen internal auditing
- Improve school system fiscal management: educational and training standards for custodians of funds, better financial reporting, training for school boards and superintendents, criminal penalties for false reports
- Eliminate legal provisions that hinder outsourcing , restrict use of local funds to cover child nutrition costs and require spending 20 percent of at-risk funds through community agencies
- Authorize elected local boards to levy up to 15 mils of school property taxes and call for votes on additional school property taxes
- End constitutional earmarking of income tax for teacher salaries, preserving an equivalent amount for K-12
- Raise the minimum population required to form a city school system from 5,000 to 15,000
- Change the school fiscal year to begin on July 1
- Create a more balanced governance structure for making decisions related to employee benefits
- Coordinate education technology improvements through the State Finance Department

Student Assessment and Accountability Reforms for K-12

- Create a new accountability system for student performance, measuring schools in multiple ways and with disaggregated data to hold them accountable for the progress of all students
- Provide performance-based rewards and sanctions for school performance
- Create an information system capable of supporting the new accountability system
- Modify the school calendar to allow students and families time to decide about opting out of failing schools

- Adopt a clear constitutional provision requiring the state to provide adequate educational opportunity for all
- Improve teacher preparation programs by raising standards, focusing on best practices, and requiring more time to be spent in schools
- Expand the Alabama Reading Initiative and the Alabama Math, Science and Technology Initiative
- Provide a training program for principals to increase their capacity to develop high-performing schools
- Offer pre-K programs for children in at-risk families
- Improve the coordination of federal and state funding sources for at-risk students
- Develop a plan to create high schools that are more successful in preparing all students
- Make meaningful parent communication and involvement in the schools a priority

Management and Accountability Reforms for Alabama College System

- Continue to reduce the number of two-year institutions. Consider grouping campuses regionally.
- Develop organizational benchmarks and report to the State Bd of Ed on consolidation savings
- Amend state purchasing laws to allow cost-effective purchasing practices
- Authorize K-12 school systems to contract with two-year institutions to deliver career-technical instruction and expand the early college enrollment program allowing dual credit for career-technical coursework
- Require periodic studies of occupational demand to guide investment and recruitment in technical fields
- Ensure state opportunity in career-technical fields for at-risk, dropouts, and adults with no diploma
- Consider fee differential based on cost of delivery and potential benefit to students
- Implement a report card to inform the public about performance in the Alabama College System

Management and Accountability Reforms for University Governance

- Restructure the Alabama Commission on Higher Education to improve its ability to provide objective and relevant policy information to the Governor and Legislature. Eliminate the unified budget request and incorporate budget advice into the Executive

Budget. Allow university boards to conduct program review subject to budget constraints.

- Create a process to adopt missions, institutional peers, and peaks of excellence for each university, to be used in funding decision and performance benchmarking
- Adopt mission-based entrance requirements for institutions to minimize the need for remediation
- Implement a report card to inform the public about university performance
- Conduct periodic performance review of universities with efficiency benchmarks for administrative functions
- Impose a moratorium on program and campus expansion until development of a revised funding formula
- Merge Athens State University with a four-year institution in the north Alabama area
- Eliminate the 5-mile exemption for non-state residents and develop restrictive rules for defining student residency
- Develop a scholarship program for Alabama high school residents
- Develop a funding formula for higher education with a base amount plus incentive funds to promote state priorities in research, teaching and public service
- End the practice of allowing legislators to serve on university boards
- Work actively to resolve outstanding issues in the Knight v. Alabama litigation

Reforms in the Terms of Public Employment

- Require appointment of local schools superintendents in systems with elected school boards
- Hire administrators and certificated supervisors under fixed-term contracts that do not convey tenure
- Authorize hiring part-time teachers and support personnel, with benefits commensurate to part-time status
- Submit removal decisions for tenured personnel to arbitration
- Repeal the fair dismissal act and include educators in the Alabama College System under the tenure act
- Increase employee premiums for health insurance to reflect an equitable percentage of the actual cost
- Charge the employer's share of health insurance premiums for retired education employees to the employer rather than including it in active employee premiums
- Coordinate health benefits for state employees and education employees

- End the deferred retirement option program
- Modify the retirement rule for future employees, basing it on a "rule of 85" for age plus years of service
- Offer incentives for highly qualified teachers to work in hard-to-serve areas
- Create performance incentives for principals
- Create a compensation system that rewards teachers for added responsibilities, knowledge, and skills
- Develop compensation differentials for top administrators based on size and complexity of institutions
- Develop a more flexible salary schedule for instructors to allow recruitment in hard-to-fill disciplines
- Authorize hiring of two-year college administrators on fixed-term contracts
- Develop a fair and balanced system for settling employment disputes in two-year institutions

Education Trust Fund Accountability

- Establish the Education Trust Fund by constitutional amendment, limiting it to support and maintain public education
- Remove the Examiners of Public Accounts from legislative supervision, creating an independent oversight committee
- Create criminal penalties for hidden "pass-through" appropriations
- Restructure the governance of the Alabama Public School and College Authority (APSCA) to broaden representation
- Provide current funding of income tax refund liabilities through an escrow account as funds become available
- Fund APSCA debt service by setting aside tax collections monthly in an escrow account
- Remove funding from the ETF for all entities not directly related to public education institutions
- Repeal laws giving quasi-state status or requiring state support for non-state entities
- Transfer from the ETF all state funding not meeting the above guidelines

GOVERNOR'S COMMISSION ON EDUCATION SPENDING

Results of Working-Group Sessions, December 2003

Working groups from the Commission met in Montgomery and at Samford University to apportion potential education cutbacks of about $285 million and $142.5 million among those who receive funding from the Education Trust Fund (ETF). The following proposal is based on their work.

1. Achieve the maximum savings possible from non-state and non-education agencies.

Non-state and non-education items remaining in the ETF might produce as much as $5 million in further cuts. The balance of savings would have to come from K-12 and higher education.

2. Freeze the state appropriation to PEEHIP at the Fiscal 2004 level. The amount of state appropriations for PEEHIP during Fiscal 2005 would be the same amount appropriated in Fiscal 2004. This would require adjustments in employee premiums and/or benefits (coverage, deductibles, and/or copays). The Plan Administrator recently provided to the PEEHIP Board a range of estimated savings from detailed changes in benefits:

- "Suggestions under normal conditions" totaled $ 82 million
- "Suggestions under tough conditions" totaled 108 million
- "Draconian suggestions" totaled 140 million

Changing benefits would affect all participants in PEEHIP, retired and active, in proportion to their demand for services. This can be viewed as a desirable way to spread the burden of increases in employee contributions. On the other hand, the current burden on employees is not shared equally: employees with single coverage pay only $2 per month in premiums, while employees with family coverage pay almost 30% of the total premium cost for their insurance. The burden of any premium changes might be reduced if employees were offered lower-cost alternative plans. Since there are a number of considerations in deciding how to implement PEEHIP cutbacks, it seems best to allow the PEEHIP board to make such decisions.

The most difficult issue involved in the discussions was how to allocate the savings from PEEHIP cutbacks between K-12 and higher education. Two options were discussed:

Option 1. The savings resulting from PEEHIP adjustments could be credited to the different sectors of education according to their share of the participants in PEEHIP. Using participant data from the Retirement Systems of Alabama, weighted for the cost differences between actives and retirees, the participation shares are as follows:

K-12	90.2%
Two-year institutions	5.9%
Senior institutions	3.9%

The rationale for this method of allocating PEEHIP savings is that credit for the cutbacks should go to the institutions with employees or retirees who will pay for those cutbacks. These are the institutions that pay the employer's share of PEEHIP costs for their participants.

Option 2. The university representatives in the working group took the position that when PEEHIP was created in the 1980s, its funding came "off the top" of the Education Trust Fund (ETF), and therefore impacted all appropriations in the fund. Under this logic, PEEHIP savings should come off the top as well. When PEEHIP was created, the state made direct appropriations to finance it; however, since 1995, education employers have paid PEEHIP premiums directly from money appropriated to them. These premiums include the cost of retired employees. Until 2004, retirees from universities not participating in PEEHIP were thus subsidized by the institutions that did participate (K-12, the two-year colleges, and Jacksonville State University).

The working group proposed to subtract PEEHIP savings off the top, before allocating the remainder of potential education cutbacks between K-12 and higher education. However, the working group also proposed a range of percentages for allocating the remaining cutbacks between the two sectors, so that the Commission can decide how to apportion cutbacks in a way that is equitable for both K-12 and higher education.

After subtracting (1) the savings from eliminating any remaining non-education items (estimated at $5 million), and (2) the savings from freezing PEEHIP appropriations at the 2004 level (estimated at $123 million), the balance would come from K-12 and higher education in one of the following ways:

- **50% from higher education and 50% from K-12.** This option is consistent with the allocation of PEEHIP savings on the basis of the number of participants. Assuming $280 million in cutbacks, the distribution of reductions among the sectors of education under these criteria, in millions of dollars, would be:

	PEEHIP	**Balance**	**Total**
K-12	$ 110.9	$ 78.5	$189.4
Two-year institutions	7.3	58.9	66.2
Senior institutions	4.8	19.6	24.4
	$ 123.0	$157.0	$280.0

- **67% from K-12 and 33% from higher education.** This option is consistent with the allocation of PEEHIP savings off the top, without consideration of the number of participants from each sector of education. Assuming $280 million in cutbacks, and assuming that the senior institutions represent 75% of the higher education sector, the distribution of reductions among the sectors of education under these criteria, in millions of dollars, would be:

	PEEHIP	**Balance**	**Total**
K-12	$ 82.0	$ 105.0	$187.0
Senior institutions	31.0	39.0	70.0
Two-year institutions	10.0	13.0	23.0
	$ 123.0	$157.0	$280.0

While the cutbacks would be assigned on the basis of different factors under the two options, the striking fact is how closely the totals match under both options.

The Commission also could split the difference, picking percentages that fall between the two listed alternatives. The choice among percentages rests with the full Commission.

The Commission recommends the following methods of allocating the required cutbacks among the sectors of public education:

- First, subtract any savings from non-education agencies _________
- Second, subtract savings from PEEHIP _________
- Third, allocate the remaining cutbacks to K-12 and higher education in the following percentages:

  ________ % to K-12

  ________ % to higher education, to be split between senior and two-year institutions according to their shares of the ETF budget

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3. Allocate higher education cutbacks to institutions. It was assumed that equitable formulas would be used to distribute state funds to two-year colleges and to state universities, as the Commission has recommended in each case. The cutback for each sector would be proportional to the share of higher education appropriations received by that sector in the most recent year for which data are available.

The so-called “50-mile exception” to the payment of out-of-state tuition would be repealed, and each institution would be required to charge tuition to all out-of-state students equal to three times the in-state tuition rate. Strict rules would be used to define student residency.

State funding would be provided only for in-state students. The intent is to ensure that Alabama taxpayers do not pay for out-of-state students, but rather that the tuition and fees of out-of-state students will fully cover the cost of their instruction. There would be at least two ways to implement the limitation of funding to in-state students:

Option 1: Count only in-state students in the funding formula, but allow institutions to keep all tuition revenue. Since institutions would be required to charge out-of-state students an amount representing the cost of their instruction, this approach would allow the institution to recover the cost of educating all students; however, the state appropriation would be allocated only for Alabama students. Using this approach, no institution currently charging triple tuition to all out-of-state students would be penalized, regardless of the number of out-of-state students. Any financial incentive to actively recruit out-of-state students would be neutralized, since there would be no additional state funding for them. However, this approach would not create any incentive to reduce the relatively high percentage of out-of-state students currently enrolled in Alabama universities generally. A specific limit on the percentage of out-of-state students would be necessary to create such an incentive under this option.

Option 2: Count all students in the funding formula, but subtract from the formula amount due each institution an amount equal to triple tuition for out-of-state students, so that the amount actually received by the institution would be the formula amount minus the chargeback. This method would give institutions an incentive to enroll in-state students, since they would keep the tuition generated by in-state students. It also would encourage institutions to limit the percentage of their students from other states, since the chargeback would penalize institutions with above-average percentages of out-of-state students.

To implement budget cutbacks in the Fiscal 2005 budget, the senior institutions and two-year institutions as a whole would be assigned reduction targets based on their share of education appropriations in the prior year. Within each sector, an equitable share of the reduction would be subtracted from each institution's appropriation.

The State of Alabama would immediately convene interstate discussions with surrounding states to encourage them to eliminate any incentives for Alabama students to attend their state universities.

4. Allocate K-12 education cutbacks to school systems. The K-12 education cutbacks would be implemented as reductions from the amounts that otherwise would be appropriated through the Foundation Program and related allocations to local school systems (transportation, capital allowance, school nurses, at-risk, etc.). Two options are possible:

Option 1. Amend the law governing the Foundation Program (and possibly other affected funding allocations as well), for Fiscal 2005 only, so that spending is controlled only by the total amount allocated to the local school system. This would allow local boards of education to choose the method by which they would manage to achieve their assigned cutback. For example, a school system with teacher vacancies might choose to use the money normally allocated for those teacher units as a part of its plan for dealing with the cutbacks, rather than hiring new teachers.

Option 2. Reduce the teacher-unit divisors in the education appropriation act so that fewer teacher units are appropriated. This would require cutbacks to come through personnel reductions. Since more than 85% of the allocations to local school systems are in the form of personnel, it can be argued that personnel reductions are the only true option available to most school systems.

The Constitution of Alabama earmarks all income tax revenue for public school teacher salaries, and either of these options may create a difficulty in meeting that requirement.

The K-12 sector would be credited with cutbacks in the amount of the growth in the 10-mill chargeback, which reduces the requirement for state funds. Growth in the chargeback comes from increased local tax burdens and is currently estimated at $15 million for Fiscal 2005. The K-12 sector also would be credited with cutbacks in the amount of the appropriation for National Board Certification of Teachers that will not be needed in Fiscal 2005, currently included in the deficit estimate at $5 million.

The Commission recommends these considerations to the Governor in developing any budget reductions for education during Fiscal 2005.

The Commission recommends that PEEHIP appropriations be frozen at the level of Fiscal 2004 regardless of the size of the budget reductions required in the ETF budget for Fiscal 2005. This is consistent with the recommendation of the Commission in its initial report that the state end the provision of single health insurance coverage at little or no cost to the employee, and move toward requiring employees to pay premiums for health care coverage at the southeastern average.

The Commission recommends that any additional revenues generated by PEEHIP savings or revenue growth be invested to bring the greatest improvements in educational achievement and economic development for the State of Alabama, including:

- The Alabama Reading Initiative
- The Alabama Math, Science, and Technology Initiative
- The implementation of an improved accountability system for K-12 and improved assessment of student progress toward education goals
- The creation of incentive funds for postsecondary and higher education tied to high-priority state goals for workforce development, research, instruction, and economic development

These and related goals are included in the Commission's written report to the Governor dated July 2003.

The Commission reiterates its support for the reform recommendations included in its July 2003 report. A summarized version of those recommendations is appended hereto.

Presented by the Governor's Commission on Education Spending to the Governor on January 14, 2004